

AS MERKO EHITUS
GROUP

Consolidated interim report 9M 2001

COMMENTARY TO 9M 2001 FINANCIAL RESULTS

Merko Ehitus group 9M 2001 consolidated and unaudited net sales amounted to 894,9 million EEK, and net profit was 55,9 million EEK.

The respective figures year ago were net sales of 910 million EEK and net profit of 39,7 million EEK.

Merko Ehitus group deals in the field of construction and with activities concerned to that, in Estonia, Latvia and Lithuania. Companies of the group 9M net sales and consolidated net sales were (thousand EEK):

	Net Sales	Consolidated Net Sales
Estonian companies		
Building		
AS Merko Ehitus	582 682	571 864
AS Gustaf (100% partnership)	74 336	45 995
AS Merko Tartu (66% partnership)	40 692	39 040
Production of structures for small houses		
OÜ Matek (71,6% partnership)	40 351	38 667
Building		
AS Normanni Linnagrupp (50% partnership)	11 400	-
AS Insenervõrgud (50% partnership)	0	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	72 315	-
Latvian companies		
Building		
SIA Merks (100% partnership)	104 066	104 066
Lithuanian companies		
Building		
UAB Merko Statyba (100% partnership)	95 236	95 236

Merko Ehitus group 9M 2001 consolidated data illustrating financial ratios were:

	9M 2001	9M 2000
Net profit margin	6,2%	4,4%
Operating profit margin	6,0%	4,0%
Return on equity (per year)	40,4%	43,6%
Return on assets (per year)	15,7%	14,5%
Current ratio	1,6	1,3
Invoice turnover (per year)	7,3	7,0
Equity-to-assets ratio	43,5 %	29,8 %

Year 2001 9M consolidated and unaudited income statement and balance sheet are compiled in accordance with the principles of the International Accounting Standards (IAS), and correspond with the Estonian legal acts regulating the accounting principles used.

CONSOLIDATED INCOME STATEMENT

unaudited, in thousand EEK

	Note	2001 9 months	2000 9 months
Sales	1	894 868	910 004
Cost of sales		811 520	850 448
Gross profit		83 348	59 556
Marketing expenses		9 353	6 230
Administrative expenses		26 879	19 200
Other operating income		7 786	6 308
Other operating expenses		1 489	3 841
Operating profit		53 413	36 593
Financial income from stocks of associated companies		1 399	717
incl. Equity method gains		1 399	717
Income from other noncurrent financial investments		-	1 051
Foreign exchange gain		3 030	2 881
Other interest and similar income		5 759	2 645
Total financial income		10 188	7 294
Financial expenses related to associated companies		1 138	741
incl. Equity method gains		1 138	734
Interest expense		76	539
Foreign exchange loss		5 407	1 649
Other financial expenses		17	394
Total financial expenses		6 638	3 323
Profit (- loss) from normal operations		56 963	40 564
Profit (loss-) before taxes		<u>56 963</u>	<u>40 564</u>
Minority interest		1 090	833
Net profit (- loss) for the group		<u>55 873</u>	<u>39 731</u>
Net profit (- loss) per share (basic and diluted, in EEK)	2	6,31	4,49

CONSOLIDATED BALANCE SHEET

unaudited, in thousand EEK

	30.09.01	31.12.00
ASSETS		
Cash and cash equivalents	49 726	42 294
Marketable securities	60 932	95 042
Accounts receivable	164 322	203 327
Allowance for doubtful receivables	-524	-506
Total accounts receivable	163 798	202 821
Receivables from subsidiary and parent companies	1 735	1 735
Receivables from associated companies	12 260	3 029
Other short-term receivables	49 553	18 423
Total other receivables	63 548	23 187
Interest receivable	593	542
Other accrued income	3	6
Total accrued income	596	548
Prepaid taxes	4 064	2 546
Other prepaid expenses	2 139	781
Total prepaid expenses	6 203	3 327
Raw materials	2 664	2 516
Work-in-progress	11 770	598
Finished goods	785	1 781
Merchandise purchased for resale	27 972	8 112
Prepayments to suppliers	3 645	578
Construction-in-progress	16 789	10 464
Due from customers	11 969	26 516
Total inventories	75 594	50 565
Total current assets	420 397	417 784
Shares in associated companies	6 447	5 303
Other shares, holdings and debt securities	1 800	1 800
Miscellaneous long-term receivables	6 148	5 020
Total long-term financial assets	14 395	12 123
Land and buildings	36 713	41 740
Ground lease	458	1 603
Plant and equipment	15 304	13 841
Other equipment and fixtures	11 151	9 119
Accumulated depreciation	-25 445	-22 438
Prepayments for noncurrent physical assets	-	2 867
Total noncurrent physical assets	38 181	46 732
Purchased concessions, patents, licenses, etc.	116	31
Goodwill	-	747
Total intangible assets	116	778
Total non-current assets	52 692	59 633
TOTAL ASSETS	473 089	477 417

	30.09.01	31.12.00
LIABILITIES AND OWNERS' EQUITY		
Debentures (except bank loans)	1 796	8 732
Short-term loans from financial institutions	853	159
Total debt obligations	2 649	8 891
Customer prepayments	18 510	31 313
Accounts payable to suppliers	112 303	150 957
Payables to associated companies	2 018	1 337
Tax liabilities	7 419	11 846
Payables to employees	8 277	7 254
Other accrued expenses	977	372
Total accrued expenses	9 254	7 626
Provisions for construction warranty liability	3 488	2 710
Due to customers	101 718	94 773
Other current provisions	459	437
Total current provisions	105 665	97 920
Other pre-paid revenue	-	57
Total current liabilities	257 818	309 947
Accounts payable to suppliers	5 462	-
Total non-current liabilities	5 462	-
TOTAL LIABILITIES	263 280	309 947
Minority interests	4 200	4 003
OWNERS' EQUITY		
Share capital	88 500	88 500
Share premium	2 950	2 950
Mandatory legal reserve	8 205	4 875
Retained earnings	49 213	6
Net profit (- loss) for the financial year	55 873	66 595
Exchange rate differences	868	541
TOTAL OWNERS' EQUITY	205 609	163 467
TOTAL LIABILITIES AND OWNERS' EQUITY	473 089	477 417

STATEMENT OF CHANGES IN EQUITY
 unaudited, in thousand EEK

	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
Closing balance 31.12.99	88 500	2 950	4 875	1 818	7 971	106 114
Exchange rate differences	-	-	-	-841	-	-841
Dividends	-	-	-	-	-7 965	-7 965
Net profit (- loss) for the financial year	-	-	-	-	39 731	39 731
Closing balance 30.09.00	88 500	2 950	4 875	977	39 737	137 039
Closing balance 31.12.00	88 500	2 950	4 875	541	66 601	163 467
Exchange rate differences	-	-	-	327	-	327
Change in reserve capital	-	-	3 330	-	-3 330	-
Dividends	-	-	-	-	-13 275	-13 275
Dividend income tax	-	-	-	-	-783	-783
Net profit (- loss) for the financial year	-	-	-	-	55 873	55 873
Closing balance 30.09.01	88 500	2 950	8 205	868	105 086	205 609

The share capital of AS Merko Ehitus consists of 8 850 000 common shares which have a par value of EEK 10.

CASH FLOW STATEMENT

unaudited, in thousand EEK

	9M 2001	9M 2000
Operating activities		
Profit from normal operations	56 963	40 564
Depreciation	6 518	5 689
Other adjustments *	18 612	1 304
Operating profit before working capital changes	82 093	47 557
Working capital changes		
Marketable securities	34 701	-44 728
Receivables	1 560	-78 838
Accrued income	3	827
Prepaid expenses	-2 882	-329
Inventories	-40 866	-10 787
Customer prepayments	-12 833	32 059
Accounts payable to suppliers	-35 735	70 409
Other liabilities	187	14 983
Tax liabilities	-4 043	-588
Accrued liabilities	-1 086	1 020
Cash generated from operations	23 271	31 585
Interests		
Interests received	4 110	2 272
Interests paid	-59	-521
Dividends		
Dividends received	8	229
Company income tax		
Income tax paid for the previous fiscal year	-803	-49
Pre-paid income tax	-335	-
Net cash from operating activities	26 192	33 516
Investing activities		
Acquisition of associates	-893	-
Acquisition of other long-term investments	-	-600
Disposal of other long-term investments	-	21
Long-term loans made	-4 528	-3 507
Long-term loan payments received	2 948	1 603
Purchase of property, plant and equipment	-5 001	-4 767
Sale of property, plant and equipment	8 751	236
Net cash used in investing activities	1 277	-6 987
Financing activities		
Proceeds from borrowings	693	5 706
Repayments of borrowings	-6 936	-7 146
Repayments of finance lease liabilities	-	-74
Dividends paid	-13 824	-7 965
Net cash used in financing activities	-20 067	-9 479
Total cash flow	7 402	17 050
Net increase/decrease in cash and cash equivalents	7 402	17 050
Cash and cash equivalents at the beginning of the period	42 294	25 239
Effects of exchange rate differences	30	2 017
Cash and cash equivalents at the end of the period	49 726	44 306

*** Other adjustments**

Adjustments of revenues from construction contracts according to the percentage of completion method	23 020	6 089
Warranty reserve changes	770	137
Vacation reserve changes	430	80
Profit or loss from disposals or liquidation of property, plant and equipment	-411	-38
Profit or loss from long-term investments	-260	-1 046
Value adjustments of marketable securities	-39	-298
Foreign exchange profit or loss	66	-1 803
Interest income	-4 260	-2 170
Interest expense	88	364
Dividends received	-8	-11
Dividend income tax	-784	-
Total other adjustments	18 612	1 304

NOTES

Note 1 Segment information

Business segments

9M 2001 in thousand EEK	Building	Production of structures for small houses	Production of concrete	Group
Sales	855 705	39 163	-	894 868
Operating profit of the business segment	51 510	1 903	-	53 413
Financial items				3 550
incl. profit from associate companies	-1 135	-	1 396	261
Profit (- loss) for the group from normal operations				56 963
Minority interest				1 090
Net profit (- loss) for the financial year				55 873
Segment assets	431 799	21 097	-	452 896
Associate companies	3 063	-	3 384	6 447
Unallocated assets				13 746
Consolidated total assets				473 089
Segment liabilities	239 814	15 193	-	255 008
Unallocated liabilities				8 272
Consolidated total liabilities				263 280
Acquisition of property, plant and equipment and intangible assets	4 505	496	-	5 001
Depreciation	6 034	484	-	6 518

Unallocated are those expenses, assets and liabilities, which can not or should not be linked to a concrete business segment.

Geographical segments

	Sale	Total assets	Acquisition of tangible fixed assets
Estonia	656 026	396 711	3 887
Latvia	104 519	41 879	809
Lithuania	99 130	34 499	305
Germany	9 787	-	-
Sweden	17 228	-	-
Norway	6 781	-	-
Finland	721	-	-
Denmark	676	-	-
Total	<u>894 868</u>	<u>473 089</u>	<u>5 001</u>

Sales revenue is based on the country in which the customer is located; the assets are reported basing on the geographic location of the assets.

Note 2

Earnings (loss) per share

Basic earnings per share are the consolidated net income of the shareholder, divided by the average weighted number of ordinary shares, excluding own shares.

in thousand EEK	9M 2001
Net profit (loss) attributable to shareholders	55 873
Weighted average number of ordinary shares (thousands)	8 850
Basic net earnings (loss) per share (in EEK)	6,31

There have been no potential ordinary shares, wherefore the diluted net earnings per share equals the basic net earnings per share.